

# Linking Heterogeneous Climate Policies (Consistent with the Paris Agreement)

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## Key Points

- International linkage of regional, national, and subnational climate policies could play an important role in supporting the ramp up of ambition in Nationally Determined Contributions (NDCs) over time — including, over the longer term, in East Asia — and so contribute to the success of the Paris Agreement.
- Linkage has the potential to lower overall costs of mitigation, given the wide range of marginal abatement costs across countries, and also can lower administrative costs of compliance and help build political momentum, both of which can contribute to scaling up ambition.
- The bottom-up nature of the Paris Agreement has led to great heterogeneity of NDCs, which can pose challenges for linking. These challenges are not insurmountable, but will require thoughtful guidance for the effective operation of key provisions for linking in Article 6 of the Paris Agreement.
- Article 6 guidance can facilitate linkage by, among other things, providing clear definitions and principles for internationally transferred mitigation outcomes (ITMOs), taking into account the heterogeneous nature of NDCs, while avoiding restrictive criteria that could impede effective linkage.

## Introduction

The Paris Agreement features a hybrid policy architecture, combining top-down elements for monitoring, reporting, and verification, and bottom-up elements, including NDCs.<sup>1</sup> The Agreement has achieved a key necessary condition for ultimate success, namely adequate scope of participation, with participating nations accounting for virtually 100% of global GHG emissions.

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<sup>1</sup> The arguments in this brief are developed more fully in Mehling, *et al.* (2017). Citations to the relevant literature are provided there.

The other key necessary condition for ultimate success of this new approach is adequate, collective ambition of the individual NDCs — to put the world on a path toward achieving the global political target of limiting temperature increases to 2° C. A central question is how to provide a structure and/or incentives that will facilitate such increases in ambition over time. International linkage of regional, national, and sub-national policies can be part of the answer.

A challenge — including in East Asia — is the substantial degree of heterogeneity that characterizes climate policies along three dimensions: types of policy instruments, levels of political jurisdictions implementing those policies, and types of targets. Our research examines such heterogeneity and identifies: (a) which linkages are feasible; (b) of these, which are most promising; and (c) what accounting mechanisms would make their operation consistent with the Paris Agreement.

### Why focus on linkage?

The main economic argument for linkage is cost effectiveness — the ability to achieve a given level of emission reductions at lowest cost. Since a major impediment to ambitious climate policy is concern about the cost of mitigation, any policy that can lower costs can also lower political resistance to ambitious policy. It has been estimated that international linkage could reduce the cost of achieving the emissions reductions specified in the initial set of NDCs under the Paris Agreement by 32% by 2030 and by 54% by 2050 (World Bank 2016, 83, 86).

Linkage can be valuable even when the linking jurisdictions have similar carbon prices. Here, the benefits are political and administrative rather than economic. The political benefits from linking policies may stem from providing a sense of momentum to which political supporters of climate policy can point and so build support. Since GHG emissions are a global pollutant, no politician wants to appear to be acting unilaterally to control emissions. Linking with other jurisdictions is a tangible signal of a multilateral approach to the problem. There are also administrative economies of scale through linkage. Jurisdictions can share best practices in designing and operating emission-control policies and so learn from each other. They can also share administrative and oversight costs and avoid costly duplication of control efforts.

### Linkage and heterogeneous systems

The bottom-up nature of the Paris Agreement has led to great heterogeneity in the submitted NDCs. We separate these heterogeneous attributes into three categories: policy instrument, political jurisdiction, and target. We divide our consideration of political jurisdiction into two types of heterogeneity: level of government engaged in the prospective linkage (regional, national, or sub-national) and status under the Paris Agreement (Party or non-Party). Finally we focus on two types of target heterogeneity: the type of policy-instrument target and the type of NDC target. Our research suggests that heterogeneity *per se* is not an impediment to

linkage. But there is a role for guidance on the key provision in the Paris Agreement for linking — Article 6.2.

## Priorities for effective Article 6 guidance

Parties are currently working to elaborate guidance on Article 6.2, but have expressed widely differing views on what issues to include in such guidance. During the discussions at COP-23 in Bonn, Parties signaled agreement on the need to offer at least minimal guidance on how to account for transfers of ITMOs, yet diverged on a number of specific issues.

Elements that will most surely see inclusion in guidance on Article 6.2 are definitions, principles, and accounting rules to prevent double-counting of emission reductions. Beyond that, Parties are likely to adopt some clarification on how to quantify mitigation targets and outcomes from different types of climate actions (whether through carbon taxes, cap-and-trade instruments, performance standards, or other policy instruments); and how to accommodate heterogeneity of target types, differing base years among linking parties, and differences in degree of geographic coverage of NDCs.

Guidance on Article 6.2 could also address the nature and scope of ITMOs. One issue is the metric for ITMOs: Will there be a single common metric, presumably tons of CO<sub>2</sub> equivalent, or will there be multiple metrics, such as installed capacity of renewable power? This relates to a broader question of whether ITMOs will be, in effect, a single or multiple type of compliance unit.

Some parties support addressing additional topics in the guidance, such as environmental integrity and sustainable development; institutional elements, such as centralized registry tracking of the transfer and use of ITMOs; and eligibility and accounting of transfers to or from non-Parties (or sub-national jurisdictions therein). Importantly, however, it is far from certain that inclusion of these issues will garner the necessary consensus among Parties nor is it clear that some of the topics under discussion would contribute to cost-effective emission mitigation.

As they negotiate the work program on implementation of the Paris Agreement, Parties have an opportunity to establish clear and consistent guidance for operationalizing Article 6. If they can set aside political differences and agree on a robust framework for ITMO transfers, they will not only avoid impeding future linkage of climate policies across jurisdictions, but could create an enabling context with common definitions and modalities. Such a harmonized set of parameters could help accelerate linkage and allow for broader and deeper cooperation.

It could also enhance Parties' — including those in East Asia — ability to scale up the ambition of their NDCs and potentially foster constructive engagement between Parties and non-Parties, as well as sub-national jurisdictions. But if guidance extends much beyond basic accounting rules, restrictive requirements could impede effective linkage. True to the spirit of the Paris Agreement, less can be more. A combination of common accounting rules and absence of restrictive criteria and conditions might therefore be the best outcome for broader and deeper climate policy cooperation.

## References

- Mehling, Michael A, Gilbert E. Metcalf and Robert N. Stavins. 2017. “Linking Heterogeneous Climate Policies (Consistent with the Paris Agreement).” Discussion Paper, ES 17-6, Harvard Project on Climate Agreements. October.
- World Bank. 2016. *State and Trends of Carbon Pricing 2016*. Washington, DC: The World Bank Group. <https://openknowledge.worldbank.org/handle/10986/25160>.